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## MEMORANDUM

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**TO:** HONORABLE MAYOR AND CITY COUNCIL  
**FROM:** CRAIG CLIFFORD, FINANCIAL SERVICES GENERAL MANAGER  
**RE:** MUNICIPAL FIRE SERVICE COST ESTIMATES  
**DATE:** MARCH 27, 2003  
**CC:** JAN DOLAN, CITY MANAGER

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This document is a follow-up to a memorandum to the City Council dated January 7, 2003, regarding the estimated cost for the city to operate a municipal fire service.

In January, the City Council called a May 20 election on two initiatives that would require Scottsdale to convert from its current contract fire service with Rural/Metro Corporation to a city-operated department. At that time, a cross-departmental staff team was established to determine the operational and financial impacts of a municipal fire department. The team assumed the transition of current operations by November 2003 – as provided by one of the ballot measures -- for 12 fire stations, 12 engine companies and three ladder companies. The team also assumed staffing and an engine would be added in calendar year 2004 at a temporary station at Jomax and Pima roads to address concerns voiced by the City Council-appointed Fire/Emergency Medical Services Advisory Committee.

The transition team analysis includes several key drivers that affect the estimated cost of a municipal department. These include the number of firefighters per truck, the number of hours in a typical workweek, salary ranges and the potential payment of retirement costs for past service. A municipal department also would require additional staffing and affect workloads in other city departments and divisions, including Information Systems, Purchasing, Accounts Payable, Payroll, Fleet, Risk Management, the City Attorney's Office, Human Resources, and Emergency Services.

This memo examines four different scenarios for staffing and operating a municipal fire department, estimates total costs for each, compares them with current costs for contract fire services, highlights the key cost differences and provides the team's estimate for one-time transition costs.

### **FINDINGS**

This analysis estimates annual net costs to operate a municipal department would range from \$18.4 million to \$25.3 million, depending on staffing, salary levels and other factors outlined below.

One-time transition costs, in all scenarios, are estimated at \$6.4 million.

The low-end estimate for operating costs for a city department is about \$740,000 less than the proposed 2003/04 fire and emergency services budget, which includes the existing Rural/Metro contracts. It should be noted that the low-end projection is based on a city-operated department using a staffing model that makes 14 fewer firefighters available in the city at any given time, compared to the current contract, because it does not include firefighters who now staff ambulances for Rural/Metro. (The total number of actual personnel needed to replace these 14 positions in the municipal department options is greater – the

equivalent of 45 full-time personnel – because each position requires a shift relief factor to account for 24-hour, seven-day staffing.) The low-end option would be inconsistent with the recommendations of the Fire/Emergency Medical Services Advisory Committee, which suggested that Scottsdale should move toward increasing the number of firefighters assigned to each engine.

Overall, the analysis shows that estimated costs generally rise as the city moves away from the staffing, salary and operations model currently used by Rural/Metro toward a fire department modeled after other cities in the Valley.

## **MAIN TOPICS COVERED IN THIS MEMO**

This memo consists of four sections:

- 1. Projected 2003/04 annual operating costs under the current contracts with Rural/Metro and under four scenarios for a municipal fire department, with and without retirement credit costs for firefighters' prior service to Scottsdale.**
- 2. A summary of the staffing, revenue and expenditure assumptions used to calculate operating costs.**
- 3. A summary of one-time transition costs**
- 4. A summary of 2003/04 budget requirements for a transition to a city-operated department**

Also attached to the memo is additional detailed information on capital and operating cost estimates.

## **1. ANNUAL OPERATING COST AND REVENUE ESTIMATES**

The following table provides an analysis of estimated annual operating costs for fire and emergency medical services under the current budget with the Rural/Metro contracts and the following municipal models:

- A. A municipal department with staffing based on Rural/Metro's current model, with firefighters averaging 60 hours per workweek, and paid according to Rural/Metro's current salary structure, but not including the 14 supplementary firefighter positions now provided on Rural/Metro ambulances
- B. A municipal department staffed and paid according to current Rural/Metro staffing models and salary structure, including 14 additional firefighter positions to replace those no longer assigned to Rural/Metro ambulances
- C. The same municipal department outlined in "B," but with salary levels adjusted to be comparable with other Valley fire departments
- D. A municipal department fully comparable to other Valley departments, with similar salary ranges and staffing based on a 56-hour workweek model.

For each of the municipal models, the table also shows the projected total and net costs if the city does not pay costs for firefighters to obtain credit for prior years of service in the Public Safety Personnel Retirement System (shown as subtotals below), and the projected total and net costs if the city does pay prior year retirement costs.

	<b>RURAL/METRO Current Fire Budget 3 Person Staffing + 14 on Ambulances 60 Hr. Workweek</b>	<b>MUNICIPAL OPTION A Current Compensation 3 Person Staffing 60 Hr. Workweek</b>	<b>MUNICIPAL OPTION B Current Compensation 4 Person Staffing 60 Hr. Workweek</b>	<b>MUNICIPAL OPTION C Municipal Comp. 4 Person Staffing 60 Hr. Workweek</b>	<b>MUNICIPAL OPTION D Municipal Comp. 4 Person Staffing 56 Hr. Workweek</b>
<b>REVENUES</b>					
Fire Insurance Premium Tax	\$ (325,000)	\$ (1,091,341)	\$ (1,091,341)	\$ (1,091,341)	\$ (1,091,341)
Advanced Life Support Transport Fees			(250,000)	(250,000)	(250,000)
<b>Total Revenues</b>	<u>(325,000)</u>	<u>(1,091,341)</u>	<u>(1,341,341)</u>	<u>(1,341,341)</u>	<u>(1,341,341)</u>
<b>EXPENDITURES</b>					
Fire Support Program	252,248	252,248	252,248	252,248	252,248
Salaries - Uniformed Field Personnel	10,440,855	8,750,726	10,997,189	11,067,157	12,437,767
Overtime	1,018,295	1,303,906	1,652,606	1,630,548	1,173,759
Other Pay - Special Skills	200,352	200,352	200,352	994,200	1,010,400
Total Payroll Expenditures	11,659,502	10,254,984	12,850,147	13,691,906	14,621,926
Fringe Benefits	2,233,086	1,428,213	1,858,562	2,078,688	2,107,298
Retirement	-	1,076,773	1,349,265	1,581,564	1,535,302
Total Benefit Expenditures	2,233,086	2,504,986	3,207,827	3,660,252	3,642,600
Vehicles & Equipment	2,007,456	1,806,786	1,806,786	1,806,786	1,806,786
Administrative Rental Space	92,430	450,870	450,870	450,870	450,870
Building & Station Expenditures	222,144	331,820	331,820	331,820	331,820
Total Station & Building Expenditures	314,574	782,690	782,690	782,690	782,690
Insurance	422,214	564,470	564,470	564,470	564,470
Other Operating Expenditures	259,105	337,184	355,850	355,850	370,147
Total Other Operating Expenditures	681,319	901,654	920,320	920,320	934,617
Fire Administrative Salaries and Benefits		1,719,209	1,718,694	1,675,386	1,675,386
Non-Fire Personnel Salaries and Benefits		574,068	574,068	574,068	574,068
Dispatch & Communications		697,500	697,500	697,500	697,500
Administrative Allocations & Overhead	2,321,108			-	-
Total Administrative Expenditures	2,321,108	2,990,777	2,990,262	2,946,954	2,946,954
<b>SUBTOTAL EXPENDITURES (WITHOUT PRIOR YEAR RETIREMENT COSTS)</b>	<u>19,469,293</u>	<u>19,494,125</u>	<u>22,810,280</u>	<u>24,061,156</u>	<u>24,987,821</u>
<b>SUBTOTAL EXPENDITURES OVER REVENUES (WITHOUT PRIOR YEAR RETIREMENT COSTS)</b>	<u>19,144,293</u>	<u>18,402,784</u>	<u>21,468,939</u>	<u>22,719,815</u>	<u>23,646,480</u>
Retirement - Prior Year Service Cost	-	1,258,941	1,547,921	1,749,185	1,681,923
<b>TOTAL EXPENDITURES (WITH PRIOR YEAR RETIREMENT COSTS)</b>	<u>19,469,293</u>	<u>20,753,066</u>	<u>24,358,201</u>	<u>25,810,341</u>	<u>26,669,744</u>
<b>EXPENDITURES OVER REVENUES (WITH PRIOR YEAR RETIREMENT COSTS)</b>	<u>\$ 19,144,293</u>	<u>\$ 19,661,725</u>	<u>\$ 23,016,860</u>	<u>\$ 24,469,000</u>	<u>\$ 25,328,403</u>

## 2. STAFFING, REVENUE AND EXPENDITURE ASSUMPTIONS

The cross-departmental team studied many options and surveyed other Valley cities to better understand how they staff and operate their departments and to establish benchmarks for municipal department operating costs. The range of costs shown in the team's scenarios reflects the degree to which the city would move toward staffing and salary models used by the Valley's municipal fire departments. The ranges are based on the following key variables:

- **Whether the city replaces firefighters who now staff Rural/Metro ambulances.** Rural/Metro currently operates its Scottsdale fire engines with three-person crews, but supplements those crews by assigning two firefighters each to staff ambulances that are also dispatched to fire and emergency medical calls. Currently, Rural/Metro provides the firefighters who staff the ambulances at no cost to the city. Without the supplemental firefighters provided in Rural/Metro ambulances, the city would need to deploy 14 additional firefighter positions – and hire the equivalent of 45 full-time firefighters to staff all shifts – to satisfy the four-person crew recommendation of the Fire/EMS Advisory Committee.
- **Whether the city adopts Rural/Metro's staffing models or moves toward models used by other municipal departments.** These variables have a direct effect on staffing levels (expressed as full-time equivalent positions or FTEs) and total compensation costs. At Rural/Metro and municipal fire departments around the Valley, firefighters work 24-hour shifts, and their time off depends on their specific staffing model.

Departments use overtime to fill positions when firefighters take sick leave, vacation time or other time away from their regular posts. Departments may also schedule a certain amount of overtime, because it is more cost-effective under some staffing models to pay overtime than to hire additional personnel. Most Valley municipal departments use a 56-hour workweek, rather than Rural/Metro's 60-hour model. As a private company, Rural/Metro pays overtime after a firefighter has worked more than 40 hours in one week. Under federal labor laws, municipal public safety departments have more flexibility in structuring overtime pay, and may set the "trigger" for overtime pay at periods exceeding one week and 40 hours. The model developed by the transition team, based on Scottsdale's staffing needs, would begin to pay overtime after firefighters have worked more than 106 hours in a two-week period.

- **Whether the city adopts a salary structure comparable to other municipal departments.** Rural/Metro's compensation structure differs from municipal departments in several respects. The additional pay that Rural/Metro provides firefighters who are certified as paramedics, for example, is structured much differently from the "special skills pay" that firefighter paramedics receive in city-operated departments. Overall, if the city provides a salary structure comparable to other Valley departments, salary costs would rise.
- **Whether the city would pay retirement costs for prior service** for eligible Scottsdale firefighters who would be joining the state Public Safety Personnel Retirement System.

For purposes of estimating costs and revenues, the team made two significant assumptions about additional compensation and staffing variables for municipal department models. It is important to note that both of these assumptions may not become reality if the city establishes a municipal department.

- **Municipal firefighters would be exempt from Social Security** under the Public Safety Personnel Retirement System. (The PSPRS administration would need to approve such an exemption.) Because Rural/Metro is a private company, its employees are not eligible for such an exemption. If, for some reason, a Social Security exemption were not approved for the city-operated department and Scottsdale would need to pay Social Security costs, personnel costs under the municipal options would rise between \$675,000 and \$940,000.
- **In municipal models using the four-person-per-engine standard, the city would assign two paramedics to each fire truck.** This is the standard for other Valley departments. It would give the city the ability to require that firefighters handle advanced life support (ALS) transport and to recover ALS fees, as outlined in the section on revenues.

The table below provides a summary of the various staffing and compensation assumptions used in each of the options.

	<b>Current Rural/Metro contract</b>	<b>Municipal Option A</b>	<b>Municipal Option B</b>	<b>Municipal Option C</b>	<b>Municipal Option D</b>
<b>Firefighters per engine</b>	3	3	4	4	4
<b>Average hrs. per week</b>	60 hrs.	60 hrs.	60 hrs.	60 hrs.	56 hrs.
<b>Total firefighter FTEs</b>	164.5+ ambulance FTEs*	164.5	209.5	209.5	242
<b>Salary levels</b>	Existing Rural/Metro	Comparable to existing Rural/Metro	Comparable to existing Rural/Metro	Comparable to other Valley cities	Comparable to other Valley cities
<b>Social Security withholding?</b>	Yes	No	No	No	No

\*The city did not calculate the full-time equivalents for the 14 Rural/Metro firefighter positions provided at no cost to the city in ambulances. FTE calculations for Rural/Metro depend on the company's specific staffing practices for those positions.

In addition, the following assumptions would apply to all staffing options for municipal departments:

- **The city would continue the Fire Support Program**, using 40 reserve firefighters recruited from city staff and trained to support the department in fighting wildland and preserve fires and providing back up for large fires or other emergencies. The program is a very cost-effective way of providing additional resources for firefighting and other emergency situations. Fire Support crews can be dispatched to help fight wildland fires, diminishing the need to tap regular firefighters, who can remain at their stations and continue providing fire and emergency medical services.
- **The city would not include a fire engineer position in its staffing model**, unlike most Valley cities, to allow for greater flexibility in scheduling.

- **The city would contract with Rural/Metro to continue dispatch service**, until such time as a radio engineering study can be completed and/or other options can be thoroughly studied.
- **Firefighters would receive supplemental pay for special skills** if certified as paramedics, or to handle hazardous materials or technical rescue operations. (Rural/Metro pays extra for such certifications, though its pay structure differs from municipal departments, as noted above.)

## Revenues

The largest source of funding for fire operations in all scenarios is the city's General Fund. A state tax on insurance premiums also provides some funding, and fees charged for Advanced Life Support transport represent another potential source of revenue.

Fire insurance premium tax revenue is received from the state annually. The state levies a tax on fire insurance premiums collected by insurance companies on property located within incorporated cities and towns. A portion of the tax revenues are apportioned to all municipalities on a pro-rata basis determined by their share of the full cash value of property in all incorporated cities and towns which have a fire department, a fire district or contract for fire services. Because Scottsdale contracts for fire services with a private company, the city currently receives an amount equal to 30 percent of its apportionment as prescribed by the state statute. The amount received for the fiscal year 2001/02 was \$316,000 and is forecasted to be \$325,000 for fiscal year 2002/03. If the city forms a municipal department, it will receive its full share of the tax. Total revenue from this source would increase to about \$1 million.

Currently, the revenue received from this source goes directly to the city's General Fund and is used to offset the cost of the fire protection contract. In cities with municipal departments, the Fire insurance premium tax is used to directly supplement fire personnel retirement benefits. If the city forms its own department, the revenue from this source *automatically* will be sent to the Public Safety Personnel Retirement System for firefighters' retirement costs.

Advanced life support transport fees are applied to patients' bills when ambulance crews provide advanced life support (ALS), such as administering intravenous injections or inserting an airway tube to assist the patient with breathing. The Arizona Department of Health Services allows ambulance companies to charge patients an additional fee (currently \$108 for this region) when the company provides ALS. With two paramedics per fire truck, one firefighter paramedic could accompany an ALS patient to the hospital in the ambulance. The city could renegotiate the current Emergency Medical Service contract with Rural/Metro to ensure that only firefighter paramedics provide ALS services, and ALS fees collected from patients are remitted to the city. Historically, the ALS fees have a high default rate and would be subject to an administrative fee from Rural/Metro or any ambulance company. The 2003/04 estimate is \$250,000 based on the city's population and other municipalities' collections.

## Expenditures

The following is an explanation of each of the major line items included as expenditures in all scenarios.

Salaries included in the projections are for uniformed personnel with firefighter, fire captain, battalion chief, assistant fire marshal, and deputy fire marshal classifications. The transition team spent considerable time to ensure the accuracy and fairness of the compensation option modeled after other

Valley departments. Salaries for fire administration are included under a separate line item, and salaries for other departmental staff (Risk Management, Purchasing, Payroll, Human Resources, Fleet, Legal, Information Services, etc.) are included under the “non-fire personnel” line item.

Overtime includes only unscheduled overtime pay for firefighters filling in for others who are on medical or vacation leave or other non-routine absences. It does not include scheduled overtime used to most efficiently set up staffing of fire stations on a 24-hour basis. Scheduled overtime is built into the “salaries” line item for all options.

Other pay is the additional compensation firefighters receive for holding paramedic, hazardous materials technician, and technical rescue technician certifications.

Fringe benefits included in the projections include costs for health and dental insurance, annual physical examinations, uniform allowance, Medicare, long-term disability, unemployment, and the city’s standard life insurance benefit. Fringe benefits are higher under the “current fire budget” scenario because of the requirement for Rural/Metro to pay Social Security taxes on wages for firefighters. Rural/Metro also contributes to employees’ 401K retirement plans, and those costs are included under this line item.

Retirement includes the projected additional cost, under the municipal models, for the city’s contribution to the Public Safety Personnel Retirement System to cover all firefighters. The cost is 10.5 percent of salaries.

Prior-year service retirement is a projection of the city’s annual payments to the state Public Safety Personnel Retirement System over a 20-year period to credit eligible firefighters for their past firefighting service in Scottsdale. The projection is based on 12.67 percent for the unfunded actuarial liability, assuming no assets are transferred to the PSPRS. Rodwan and Nichols, an actuarial and consulting firm, computed the employer contribution rate based on Rural/Metro uniformed salaries as of June 30, 2002.

Vehicles and equipment includes an addition of four full-time fleet mechanics to provide the necessary maintenance for additional vehicles and equipment required by a municipal fire department. Other expenditures in this line item are for the actual supplies used, such as tires, shop supplies, parts, license fees etc. Amounts are also included annually to replace older equipment and vehicles.

Administrative rental space is the cost associated with leasing 15,029 square feet of office space at \$30 per foot for the additional administrative positions required to operate a municipal department.

Building and station expenditures encompass utilities, telephones, building supplies, maintenance, pagers, computers and other related costs.

Insurance is based on estimates for worker’s compensation, vehicle insurance, liability insurance, and excess liability premiums.

Other operating expenditures include costs for printing, training materials, non-capital equipment, travel and other miscellaneous items.

Fire administrative salaries and benefits comprise all of the fire department positions not included in the “salaries” line item. These 23 full-time-equivalent positions include administrative secretaries, schedulers, public education and public information officers, the fire chief, assistant fire chiefs and deputy

fire chiefs. Salaries were determined based on the existing city salary ranges and benchmarks with other cities.

Non-fire personnel salaries and benefits include 13.5 full-time-equivalent positions in other city departments needed to support a municipal fire operation. Departments and divisions most affected would include Information Systems, Purchasing, Accounts Payable, Payroll, Fleet, Risk Management, the City Attorney's Office, Human Resources, and Emergency Services. Salary projections in this item are based on the mid-point for existing city salary ranges.

Dispatch and communications is the estimated cost to contract with Rural/Metro for these functions. This is an interim solution and the city will need to choose between several dispatch options in the future. These include developing an in-house staff to provide dispatch services or joining the City of Phoenix/Mesa system at a cost yet to be determined. Either option will have initial capital outlay and on-going operating cost implications. Until more is known about potential options, the staff could not provide reliable estimates of long-range costs.

### 3. TRANSITION COSTS

If Scottsdale implements a municipal fire service, the city would incur one-time transition costs and budget requirements, in addition to the annual operating budget. Scottsdale already owns the fire engines used within the city and the fire stations located within its boundaries. However, the city would need to supply personal computers, station furnishings, equipment and support vehicles. The city also would incur one-time costs for office space, computers, furniture and other equipment for additional staff needed in other departments to support the city fire department. **Financial Services' current conservative estimate for one-time costs to a municipal fire department is approximately \$6.4 million**

A summary of the major categories for transition costs follows (See attachments for line item information):

<u>Description</u>	<u>One-Time Transition Costs</u>
Turnout Gear and Uniforms	573,421
Apparatus Equipment and Supplies	1,855,899
Fire Administration Space and Furnishings	752,230
Station Furniture, Fixtures, Equipment	172,620
Phone System	338,801
Computers	170,826
Radios	301,541
Radio System Consultant	150,000
Software	181,000
Vehicles	593,700
Fleet Maintenance Operations	86,500
Salaries and Benefits	340,200
Non-Capital Expenditures	53,640
Recruitment and Training	181,946
Contractual Services	58,500
<b>Subtotal</b>	<b>5,810,824</b>
Contingency (10%)	581,082
<b>Total One-Time Transition Costs</b>	<b>\$ 6,391,906</b>



## Future Capital Considerations

In addition to the costs listed above, the city will need to provide capital funding in future years for fleet management space and dispatch services. The Fleet Management Division will require additional space to provide on-going services. This need will become even greater as the city increases the number of stations and engines housed in them. The initial cost of the additional space and equipment is estimated at \$918,500. As noted above, the city will also need to choose between several dispatch options that will require capital outlays.

## 4. BUDGET IMPLICATIONS FOR FY 2003/04

If the city makes the transition to a municipal department, based on a transition date of November 16, 2003, the City Council would need to add an amount ranging from \$6.4 million to \$10.9 million to the 2003/04 General Fund budget. This range is based on the annual estimated costs for each option, pro-rated for the portion of the fiscal year from November 16 through June 30, plus the \$6.4 million one-time transition cost applicable to all scenarios.

The table below shows the total additional 2003/04 General Fund budget amounts needed for each of the municipal department scenarios, with and without past-year retirement costs added in:

	<b>Option A (Current Compensation, 3- Person Staffing, 60-hr. Workweek)</b>	<b>Option B (Current Compensation, 4- Person Staffing, 60-hr. Workweek)</b>	<b>Option C (Municipal Compensation, 4- Person Staffing, 60-hr. Workweek)</b>	<b>Option D (Municipal Compensation, 4- Person Staffing, 56-hr. Workweek)</b>
<b>Without prior- year retirement costs</b>	\$6,407,348	\$8,469,724	\$9,247,667	\$9,823,976
<b>With prior-year retirement costs</b>	\$7,190,306	\$9,432,404	\$10,335,515	\$10,869,993